Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Jun-2018| Report No: PIDC24851

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Congo, Republic of	P165815	Congo Fiscal management, economic and social resilience DPF (P165815)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Sep 19, 2018	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministere des Finances et du Budget	Minisere du Plan, de la Staistique et de l'Integration Regionale		

Proposed Development Objective(s)

The Program Development Objectives (PDOs) are to support the Government's efforts to: (i) improve domestic resource mobilization and rationalize fiscal expenditures; (ii) remove barriers from targeted growth enabling sectors (agriculture, forestry, energy) and business environment; and (iii) strengthen the resilience of social sectors.

Financing (in US$, Millions)

SUMMARY

Total Financing	200.00

DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. The oil price crisis resulted in the sharp contraction of the Republic of Congo's economic growth over the past two years. Despite positive developments with an increase in oil production, the overall economy further contracted at -3.1 percent in 2017 from - 2.8 percent in 2016. Oil revenues shrank to 13.5 percent of GDP in 2017 from 35.3 percent in 2014. Negative developments in the oil sector resulted in the widening of the current account balance, and weakening of the country's external position. The current account balance shifted from an average surplus of 10.8 percent of GDP during the period 2010-2014 to a deficit of 74.1 percent of GDP in 2016. The loosened monetary policy in 2014-2016 has been replaced by a tight monetary policy in line with the objective maintaining the external stability of the currency union. Inflation remained low, at 0.3 percent in 2017 from 3.2 percent in 2016, on the back of tight credit conditions and weak domestic demand. Financial sector vulnerabilities have increased. With the non-oil sector particularly affected by public domestic arrears as evidenced by the decline in deposits (-9.9 percent in 2017), non-performing loans almost doubled to 16.6 percent of total loans in December 2017 from 8.5 percent in December 2016. Pro-cyclical public investment and previously undisclosed non-concessional debt have pushed public debt as a share of GDP from 22 percent at end-2010 to an estimated 118.3 percent at end-2017. The financing gap is estimated at $3.9 billion for 2018-21, and arrears continue to build. The country is in debt distress and discussing debt restructuring with creditors.

2. Notwithstanding significant challenges, the Republic of Congo's macroeconomic policy framework for 2018-2021 offers an adequate basis for the proposed operation, if debt restructuring, the measures in the IMF-supported program and the WB policy reforms are successfully implemented. Despite downside risks, the macroeconomic framework is considered adequate for development policy financing because the Congolese authorities have taken measures to cope with the current economic and financial distressed situation. Notably, the Government has taken measures in the 2018 Law of Finance which encompasses the necessary fiscal adjustments such as the increased mobilization of tax revenues, the reduction in capital expenditures, and the control of the public wage bill. Furthermore, the Government has initiated discussions with its creditors to restructure its debt and reduce it to a sustainable during the next four years.

Relationship to CPF

3. The proposed operation is fully consistent with the priorities and approach established in the CPF for FY19-FY22 and the National Development Plan for 2018-2022 that are both being finalized. Building on the findings of the 2017 Systematic Country Diagnostic on Congo, the CPF is structured around three pillars: (i) Promoting structural transformation by leveraging natural assets and capturing latent comparative advantage in a sustainable manner to diversify the economy from oil and create more jobs; (ii) Building human capital by enhancing health, education, skills development, and social protection systems; and (iii) Implementing relevant macroeconomic policies and upgrading the strength and the quality of public institutions. Reforms supported under the three pillars of the proposed operation directly contribute to all three pillars of the CPF, through an emphasis on institutional, legal, and regulatory reforms that the expand impact to revenue collection and government spending, to disadvantaged groups through protecting crucial expenditure of the social sector (education, health and social protection) and support targeted growth enabling sectors (agriculture, forestry and energy) in an improved business environment. Actions to improve the energy sector and business environment are also complementary to ongoing IFC activities intended to advise the country in building the dam on the river Sounda in Pointe-Noire by a PPP and mitigate risks faced by private sector investors through some facilities.

C. Proposed Development Objective(s)

4. The Program Development Objectives (PDOs) are to support the Government's efforts to: (i) improve domestic resource mobilization and rationalize fiscal expenditures; (ii) remove barriers from targeted growth enabling sectors (agriculture, forestry, energy) and business environment; and (iii) strengthen the resilience of social sectors.

Key Results

5. The key expected results of this operation are as follows. For Pillar 1, are expected an increase in non-oil revenue, a reduction of tax expenditures related to exemptions, and an increase in total natural resource revenues. For Pillar 2, are expected a regulatory framework for intersectoral coordination in spatial planning, a decrease in the technical and non-technical losses in the power sector, an increase in the collection rate of electricity and water bills, and shorter times for business creation. For Pillar 3, are expected an iincrease in the coverage of households which are eligible to free health services and cash transfer, an increase in the budget line for maintenance of infrastructures in the 3 sub-sectors of education, and an increase in financing for the PBF program allocated to primary health care and for essential drugs and vaccines, malaria drugs, TB drugs, and HIV/AIDS drugs.

D. Concept Description

6. To support the Government's reforms in the areas of fiscal management, economic and social resilience, the series is organized around three pillars:

- ***Pillar 1: Improving domestic resource mobilization.*** With the fiscal adjustment, the Government needs to increase domestic revenue to address the negative impact of the low oil prices crisis, finance its national development plan and reduce public debt at a manageable level. Concurrently, the efficiency of public spending must be improved, tax expenditures will be reduced with increased transparency and natural resources management is targeted for improvement.
- ***Pillar 2: Removing barriers from targeted growth enabling sectors (agriculture, forestry, energy) and business environment.*** Policy areas in this pillar focus on measures which aim at addressing bottlenecks in agriculture, forestry, water and electricity and improving the business environment to enhance private sector development.
- ***Pillar 3: Strengthening social sectors through improved coverage.*** With the ongoing fiscal adjustment and the low access to and quality of social services, it is essential to implement measures which could protect the vulnerable and improve the efficiency of service delivery while enhancing access. Pillar 3 supports reforms that will improve the efficiency of spending on social protection, education and health services to build more resilience to shocks.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

7. None of the prior actions supported by the proposed DPF series are expected to have significant negative impacts on poverty and income distribution. Although, additional analysis would be necessary to assess welfare and equity impacts of some reforms in the medium term, most the proposed prior actions at this step of the DPF series are expected to have positive impacts on both poor and non-poor households by improving the availability of public resources, contributing to economic growth, and expanding income opportunities.

8. **Prior action 1 supports measures to increase fiscal space and is expected to have an indirect positive impact on poverty and income distribution by increasing government ability to implement social programs.** Streamlining registration and tax collection procedures is expected to reduce fiscal evasion, increase fiscal revenue and, contribute to the creation of a fiscal space which, is essential for a stable and predictable macroeconomic environment. The latter is necessary to limit uncertainty and allows for an increased allocation of fiscal resources to the delivery of essential social services, a direct contribution to poverty reduction.

9. **Prior action 2 supports compliance with tax code, custom code and CEMAC regional directives through suppression of discretionary exemptions including VAT, excise and custom taxes.** This is equivalent to introduction of new taxes on some commodities. Whether the adoption of a given VAT hits harder the poor than the non-poor is an open question. However, there are both theoretical and empirical results showing that the VAT can be regressive when effective taxation of commodities mostly consumed by the poor increases. To understand better the effects of tax policy on firms and households, the team will undertake a study on poverty and distributional impact of the proposed measures.

10. **Prior actions 3 and 4 support the adoption of forest code which is expected to have positive externalities on local communities and population wellbeing although medium and long welfare impacts are unknown.** The promulgation and implementation of the forest code coupled with the planning of the rural area will allow a better management of the forest and mining resources of the country. While the transformation and valorization of forest products could create jobs including a more productive forestry sector and better living conditions for households, its net impact on local population especially indigenous people is unclear. In fact, the development of the sector could contribute to the destruction of existing jobs unless local communities are well integrated to the value chain of the new economy generated by the proposed reforms. The regulation of forestry sector through the forestry code will compel logging companies to pay taxes that will increase the state's fiscal resources. In addition, taxes paid to local communities and indigenous peoples for community development will ensure access to basic social services through the construction / rehabilitation of community health centers, schools, water points, etc. All these local development actions are expected to improve the well-being of local populations. All the expected positive impacts depend on the governance of the resources generated both at state and community level.

11. **Prior action 5, 6 and 7 are not expected to have any significant impact on households' wellbeing.** The proposed activities under prior action 5 are limited to the approval of the reform agenda for the water and electricity sector and setting up the inter-ministerial committee for its monitoring its implementation. While these activities are not expected to have any poverty impact per se, the improvement of the operational and financial performance of the energy and water sectors could lead to better quality service to customers including households. Similarly, prior action 6 which aims at facilitating the creation of enterprises is expected to have no direct impact on poverty. However, the implementation of the proposed actions, will enable the creation of enterprises, a necessary condition for private sector development and job creation. Finally, prior action 7 is not expected to have a direct impact on poverty either although, the establishment of a unique social registry (RSU) and paring it with social programs could improve targeting performance of the later and make them more efficient.

12. **Prior action 8 supports financing of the education sector through sustained investment in basic infrastructure and the functioning of training entities and is expected to have an indirect positive impact on poor households.** There is an abundant body of evidence that have proven education as a significant factor of poverty alleviation around the world. In the Republic of Congo, poor households (almost half of the population) do not benefit from an effective access to high quality education because of the reliance of the country on private providers. Through adequate financing for public training entities including vocational training, conventional school, prior action 11 will help provide better access to education to all particularly poor households. Because public schools are more affordable than private schools, low income

households could benefit most from the proposed action as they would earn skills that better equipped them for more productive or higher paying jobs.

13. **Prior action 9 which, aims at securing funding for priority expenses in the health sector, is expected to have positive impact on poor**. The current weakened fiscal position of RoC has resulted into the closure of some public health centers; with adverse impact on the access to health facilities for the poorest households. In fact, health budgets are not adequately executed with a pre-ponderance of capital spending to the detriment of basic inputs such as vaccines, drugs and co-financing of the basic benefit package. Thus, securing the financing for health centers, drugs and vaccines to fight endemics, contagious diseases, will contribute to the reduction of the number of poor households using inadequate or expensive private health care centers. The proposed action is expected to reduce out-of-pocket health expenditure for households. Through better access to public health care and lower out of pocket health expenditure, poor households are left with higher disposable income for consumption and investment.

Environmental Impacts

14. Two prior actions have the potential to have positive impacts on the environment:
- The introduction of the new Forest Code (PA3) should create the legal underpinnings for the sustainable management of the forest sector. However, the quality of the corresponding implementation decrees will be key in avoiding any unintended consequences of the new law. To this end, development partners including the World Bank have an ongoing dialogue with the Ministry of Forest Economy. The operationalization of the SIVL may also contribute to greater importance being attributed to the implementation of forest laws, which should have positive impacts on the forest stock.
- The improvement of government coordination processes for land use allocation (PA4) should lead to decisions that protect existing natural resource uses, including in forests, and that improve transparency in decision-making surrounding land use allocations.

15. The other prior actions are unlikely to have significant environmental effects. They do not curtail resources the Government is currently committing to the control of environmental impacts. Indirect negative impacts are possible to the extent that any measures lead to an improved business climate, which in turn could promote the growth of industries with a negative impact on the environment. However, any such impacts are likely to be longer-term and to depend on factors that are additional to the prior actions in this DPF series.

CONTACT POINT

World Bank

Samba Ba
Senior Economist

Borrower/Client/Recipient

Ministere des Finances et du Budget
Paul MALIE
Directeur des Etudes et de la Planification - DEP
paulmalie01@gmail.com

Implementing Agencies

Minisere du Plan, de la Staistique et de l'Integration Regionale
Ferdinand Sosthene LIKOUKA
Directeur de Cabinet
likouka_ferly@yahoo.fr

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Samba Ba

Approved By

Country Director:	Yisgedullish Amde	28-Jun-2018